

Ly, Anh

From: Ingram, Sean L. [sean.ingram@pillsburylaw.com]
Sent: Friday, October 28, 2005 11:59 AM
To: Ly, Anh
Subject: RE: Ex parte Lundgren, Appeal No. 2003-2088

Dear Examiner Ly,

Thank you for the update. I have searched the Internet and found the following link to the actual Board Decision, which has been designated a precedential opinion.

<http://docs.law.gwu.edu/facweb/ciaw/XplLundgren.htm>

Thanks,
Sean Ingram

From: Ly, Anh [mailto:Anh.Ly@USPTO.GOV]
Sent: Friday, October 28, 2005 11:43 AM
To: Ingram, Sean L.
Subject: RE: Ex parte Lundgren, Appeal No. 2003-2088

Good Morning, Mr. Ingram:

Thank you for this. I have to talk with my 101 Panel and let you know about it. It will take some days delay the process. Because it is a newly issue to us. Why you do not accept to amend "a method iinto" a computer-implemented method and a system into a computer system.

Thanks!

Anh Ly

-----Original Message-----

From: Ingram, Sean L. [mailto:sean.ingram@pillsburylaw.com]
Sent: Friday, October 28, 2005 11:28 AM
To: Ly, Anh
Subject: Ex parte Lundgren, Appeal No. 2003-2088
Importance: Low

Dear Examiner Ly,

The following article reports on the recent decision by the Board to end the USPTO's four-year old practice of rejecting method claims (especially business method claims) that were not limited to the use of computers or other electronic processing devices. I was not able to obtain the actual text of the decision, but I have provided the appeal number for you.

Regards,
Sean

IP Law Bulletin (Tuesday, October 18, 2005)—A landmark decision by the U.S. Patent & Trademark Office this week will lead to a wave of new business-method patents, widening the

10/28/05

canyon between U.S. law and the patent regime in other countries, patent attorneys agree.

In a decision that puts USPTO practice in line with previous rulings by the U.S. Court of Appeals for the Federal Circuit and the Supreme Court, the Board of Patent Appeals and Interferences decided that there is no judicially recognized separate "technological arts" test to determine patent eligibility.

"Our determination is that there is currently no judicially recognized separate 'technological arts' test to determine patent eligible subject matter under § 101. We decline to create one. Therefore, it is apparent that the examiner's rejection cannot be sustained," the Board said in its decision.

"The Patent Office's decision is a milestone. It's likely to create a completely different dynamic for the examination of business method patent applications," said John Conklin Leydig, a partner with Voit & Mayer Ltd.

"The decision may well open a floodgate of patent applications filed at the USPTO, and perhaps usher in a new era of business method patent applications," said Thomas J. Kowalski with Frommer Lawrence & Haug LLP.

With the USPTO's latest decision, the U.S. is closer to allowing patents for "anything under the sun made by man," as the Supreme Court held in an often-quoted 1980 decision which determined that a life form is patentable.

"The decision removes another barrier to patenting all innovation. The competitive environment requires that companies harvest and protect innovation from all sources, not just technology from R&D," said Wayne Jaeschke, an attorney with Connolly Bove Lodge and Hutz LLP.

In practical terms, the decision ends the USPTO's four-year old practice of rejecting business method claims that were not limited to the use of computers or other electronic processing devices.

The USPTO's "technological arts" test, for determining whether the subject matter of an invention was patentable, developed a life of its own when it became enshrined in the USPTO's internal examination guidelines, according to John D. Goodhue, a Patent Attorney with McKee, Voorhees & Sease.

He suggested the test found its way into the guidelines because the USPTO is not particularly well-equipped to evaluate nontechnological inventions.

The "technological arts requirement" had long been a thorn in the side of anyone trying to protect a business method. The requirement distinguished between business methods performed using a computer, and those performed without a computer. Those performed using a computer could be protected. Those not performed with a computer were practically impossible to meaningfully protect.

"Now the USPTO's internal appellate body seems to be exercising its autonomy in order to buck that trend and return to the Supreme Court's definition of what is patentable," Goodhue said.

"The Board has taken away a tool that some examiners use with a heavy hand to force inventors to unduly limit their claims to computerized inventions. The decision will likely result in the issuance of more business method type claims that are not limited to computerized processes,"

said Sughrue Mion's Jay W. Lytle.

Most patent attorneys seemed to agree that the decision merely affirmed existing law, even if it hadn't been enforced by the USPTO.

"I've been of the view for quite some time that there is no prohibition of business-method patents," said Jim Gatto, a partner with Pillsbury Winthrop. "So this really doesn't amount to any change in the law."

Kevvin W. Goldstein and Kevin Casey, two patent attorneys with Stradley Ronon Stevens & Young, LLP, agreed.

"This decision merely affirms court decisions made in the 1990s, most notably in the 'State Street' case," said Casey. "But it will still make a difference, since the USPTO will now have to align its examination process with the law."

The USPTO started its rejection policy in response to a flood of business-method patent applications in the wake of a series of decisions that fundamentally changed U.S. patent law in the 1990s.

In 1983, the U.S. District Court for the District of Delaware sided with Merrill Lynch against Paine Webber in one of the first cases involving so-called "method-of-doing-business" patents. Merrill Lynch is reported to have used the judgment to press for extensive licensing revenues from the patent, which describes a computer system used to implement cash management accounts.

But it wasn't until 1998, when State Street's lawsuit against Signature Financial Group decisively validated business method patents, that businesses began to seriously consider the potentially devastating impact of "method patents" on their operations.

The State Street case opened a Pandora's Box on the patenting of business systems used in the financial world and caused many financial-services firms to beef up their resources in intellectual property management.

"For a number of years after State Street, the USPTO backed off from rejecting patent applications as non-patentable 'business methods.' Meanwhile, the USPTO was flooded with applications for business method patents. As a result, the current backlog for these applications is more than four years," said Robert Sachs, a Partner with the Patent Group at Fenwick & West LLP.

To counter this flood, the USPTO once again took to rejecting the patents, this time for not using "technology" to perform the method.

The Patent and Trademark Office's reluctance to allow applications led to an "alarmingly low" 16% allowance rate in class 705 where e-commerce applications were classified, according to Brian Buroker, a partner at Hunton & Williams.

The policy led it to create a "new artificial barrier to patentability that did not comport with the Federal Circuit's precedent," Buroker said.

In particular, the USPTO's policy hit patents involving financial instruments, trading platforms

and other financial schemes that would appear to be “novel and non-obvious,” said Steven B. Pokotilow, Co-Managing Partner of Stroock & Stroock & Lavan's Intellectual Property Practice Group.

“Now the advice to clients would appear to be that claims that express a business method in its broadest terms should be included in each application,” he said.

The decision was mostly welcomed by patent attorneys, who said the USPTO had created an artificial barrier to business-method patents that wasn't supported by the law.

The decision would curb an attempt by the USPTO's examiner “to make new law in the face of contrary case law,” said Melvin Garner, a partner with Darby & Darby P.C.

Indeed, the majority of the Board was “flabbergasted” that the USPTO admitted to the presence of a useful, concrete, and tangible result in the claims, but was still pressing forward with a “novel” rejection, said Tony Laurentano with Lahive & Cockfield, LLP.

The move opens the door again to protecting so-called business methods and other thought-capital that is not limited to a specific technical platform, said Marc V. Richards, a partner with Brinks Hofer Gilson & Lione.

“Since technology will evolve through multiple generations during the 20-year life of a patent, an inventor can obtain patents that will be technology neutral and protect the implementation of their inventive processes carried out on any future technology,” Richards said.

The Board's decision will help promote economic progress and is “fully consistent with long standing precedent on patentability,” said Gregory J Maier, a partner with Oblon Spivak who has followed the case closely.

“Over the years there have been many attempts to impose additional requirements for patentability based on technology type, but time and experience have shown these efforts to be erroneous,” Maier said. “The Board has correctly decided that there is no reason to create an exception to established law applicable to business method inventions.”

But not everyone agreed the new policy would enhance patent law. Some patent lawyers expressed concern the decision would lead to a tidal wave of “junk” patents which, in turn, would tie up high-tech and financial-services companies in litigation.

“I think you can say that this will be an unhappy decision in general for leading-edge companies that are focused in the telecommunications and information industries,” said Steve Bauer, a partner at Proskauer Rose and head of the firm's Boston office.

“While Congress is actively considering ways to fix the patent litigation system to reduce the impact on industry from being sued by patent owners that do not ‘make, use or sell’ anything covered by their patents, this Patent Office decision will only increase the number of patents that are thought of as a ‘license to sue’ the IT industry. So, faster than Congress takes away, the Patent Office gives,” Bauer said.

Striking a similar chord, Sheppard Mullin Richter & Hampton LLP's David Schnapf said the system is stacked in too many ways in favor of granting questionable patents, and that the decision will only aggravate the problem.

"On the practical side, this results from inadequate USPTO funding, lack of experienced examiners, and lack of good sources of prior art. But of greater concern is that on the legal side there are stringent legal requirements which make it too hard to sustain an obviousness rejection," Schnapf said.

The concept of business method patents has put the USPTO in a tight spot, forcing it to think carefully about what kind of patents to accept, said Jeffrey D. Sullivan, a partner with Baker & Botts, L.L.P.

"The USPTO finds itself in a tough position. It has admirably tried to respond to the justified criticism over the past issuance of 'junk' algorithm patents, but it is severely constrained by the breadth of the State Street and AT&T decisions' apparent endorsement of 'pure' algorithm patents," he said.

In the end, however, the decision may not make that much difference on the quality of patents issued, Sullivan said.

"When the USPTO rejected 'pure' algorithm claims, applicants have often been able to work around such rejections merely by claiming 'an electronic computer programmed to perform [the algorithm steps] and output a result,'" he said. "As most algorithms or business methods are, in practice, implemented using computer systems, such a claiming approach will often allow protection essentially equivalent to that which could be obtained with a 'pure' algorithm claim."

To a limited extent, the decision could fuel patent litigation, especially by companies whose business-method patents aren't implemented by a computer, said Daniel Altman, a partner with Knobbe Martens Olson & Bear LLP.

"The Board's decision is binding only on the Patent Office itself and not on the courts. Nevertheless, the decision can be cited as non-binding support that there is no 'technological arts' requirement for a claim to be patentable subject matter," Altman said. "Thus, patentees having claims directed to subject matter not tied to the technological arts should be more confident in pursuing their claims against infringers."

Similar to what happened to software patents about a decade ago, the decision will allow patent attorneys to be more aggressive when drafting their business method patent claims, said John V. Biernacki in Jones Day's Cleveland office.

"Instead of having to cloak inventive business methods in terms of some contrived technical implementation, patent attorneys can more directly and broadly express the business method innovation. The greater breadth will correspondingly increase the pool of potential infringers and hence the licensing pool," Biernacki said.

Some patent attorneys worried the decision would jeopardize efforts to harmonize patent laws internationally.

By attempting to reject patent claims because they were not tied to the "technological arts," the examination policy of the USPTO had been trending towards the approaches of the European and Japanese Patent Offices, said Celine Crowson, Partner, Hogan & Hartson LLP.

However, the board's decision "reverses that possible trend towards harmonization," she said.

"Instead the decision only furthers the reality that broader patent protection, especially for method claims, is more likely available in the United States when compared to many other countries."

"The decision not only puts us at odds with other countries who are still questioning the patentability of software, but it also puts us at odds with our own limitations on enforcing patents to medical procedures," said Toni-Junell Herbert, a partner with Reed Smith.

RatnerPrestia shareholders Rex Donnelly and Kenneth Nigon said the decision "moves the U.S. patent system away from the European patent system, which has always required inventions to be within the technological arts."

Jim Singer, a partner with Pepper Hamilton LLP, agreed. "The decision highlights that in the U.S., you can patent certain inventions that aren't always patentable in Europe, Japan or other key markets. Those inventions include methods of processing text, financial data and business data, where the methods aren't tied to any particular technology," he said.

The decision would give Congress an opportunity to discuss broader patent policy issues, such as broadening or limiting patentable subject matter within the statute, rather than jump right into some of the currently proposed changes, said David Metzger, vice chair of Sonnenschein Nath & Rosenthal LLP's Intellectual Property & Technology Group for patent work.

"This decision presents a disconnect with the EPO and Japanese systems which require technical results or effects, and which are shying away from such broad process claims, particularly in the software area. Yet Congress currently is considering unilateral changes in a belief that our patent system can be harmonized with other patent systems," Metzger pointed out.

Thomas, Kayden, with Horstemeyer & Risley LLP, said he expected more complaints from foreign patent practitioners about the excessive scope of U.S. patents as a result of the Board's decision.

"Although the decision should allow U.S. practitioners to stop disguising their business method inventions as software, the rest of the world still has a similar 'technological arts' requirement that will keep international patentees on their toes with the old practice," he noted.

Meanwhile, the decision is likely to put pressure on the patent office to push through more business method patents, whose pendency has grown sharply in recent years, said Eric Sophir, an associate with Kilpatrick Stockton.

"The decision may help expedite the pendency of business method applications. By eliminating the 'technological arts' test, many outstanding rejections are now moot and a reduction in new rejections should follow. The Board's dismissal of Ex Parte Bowman is particularly significant as many examiners rely on this non-precedential case as the basis for their rejection," Sophir said.

But some patent attorneys said they now expected the USPTO to make another move to stop a fresh wave of "business-method" patents.

"It remains to be seen whether the Patent Office will adopt another test based on the requirement for a 'concrete and tangible result' as suggested in the strong dissent in this case," said James Juo with Fulwider Patton Lee & Utecht, LLP.

The decision is almost certain to be appealed to the Federal Circuit and the Supreme Court, said

said Baker Botts' Sullivan.

"Until then, we expect the PTO will try again to constrain broad claiming of business methods and algorithms by issuing (perhaps as soon as within the month) new rules providing special procedures and heightened scrutiny for examination of "non-technical" algorithm claims," he said.

Indeed, the dissenting opinions have given plenty of ammunition for defendants in a patent infringement lawsuit to challenge a patent in Federal Court, said Brinks Hofer's Richards.

"The Courts are not bound by what is decided by this decision, so the issue will not be clearly decided until the Federal Circuit has the opportunity to weigh-in on this issue. Until then, I caution applicants to not totally rely on this decision, but to build in to their patent claims technology limitations that would be a fall back position should the Courts ultimately decide that there is a requirement for an invention to be within the technological arts," he said.

Reed Smith's Herbert offers her clients similar advice: "Do not change your patenting strategy and do not adopt any new ones just because of this decision, since this decision is begging for an appeal and/or legislative action."

Mike Dunnam, a partner at Woodcock Washburn LLP, said the debate would rage on until the Supreme Court or the Federal Circuit weighs in on the matter.

"I have been telling clients to wait for this case to be resolved before appealing 101 rejections. I am now moving forward with a few appeals," he said.

Whatever the outcome of the possible appeals, the USPTO is now certain to be forced to once again review its policy on business-method patents, attorneys agree.

"If the decision holds up, the Patent Office will continue to struggle with business method patents. Many examiners will have to hold their noses and allow broad business method claims to issue," said Matthew Kreeger, a San Francisco litigation partner with Morrison & Foerster, who practices before the Board of Patent Appeals and Interferences.

The case is Ex parte Lundgren, Appeal No. 2003-2088, U.S. Patent and Trademark Office, Board of Patent Appeals and Interferences.

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